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GENERAL AND COMPLETE DISARMAMENT: CONVENING OF THE FOURTH SPECIAL SESSION OF THE GENERAL ASSEMBLY DEVOTED TO DISARMAMENT

Note by the Secretary-General

1. On 10 December 1996, the General Assembly adopted resolution 51/45 C, entitled "Convening of the fourth special session of the General Assembly devoted to disarmament", paragraphs 1, 2 and 3 of which read:

> "1. Decides, subject to the emergence of a consensus on its objectives and agenda, to convene its fourth special session devoted to disarmament in 1999;
>
> "2. Notes the view of the Secretary-General that preparations for the special session could begin in 1997;
>
> "3. Decides, subject to the outcome of deliberations concerning the fourth special session of the General Assembly devoted to disarmament at the 1997 substantive session of the Disarmament Commission, to convene a meeting of the Preparatory Committee for the Fourth Special Session of the General Assembly Devoted to Disarmament before the end of the fifty-first session of the Assembly in order to set an exact date and to decide on organizational matters relating to the convening of the special session, and requests the Preparatory Committee to submit its progress report to the Assembly at its fifty-second session".

2. The Disarmament Commission held its 1997 substantive session from 21 April to 13 May 1997. The Commission decided to include in its agenda the item entitled "Fourth special session of the General Assembly devoted to disarmament", which was considered in Working Group II.

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* A/52/150 and Corr.1.

3. At its 12th meeting, on 9 May, the Working Group concluded that, after intensive consultations, it was generally agreed that a fourth special session devoted to disarmament would be convened, subject to the emergence of a consensus on its objectives and agenda. Although no consensus on objectives and agenda was reached, some progress was made. It was also generally agreed that the decision on convening a fourth special session should follow the procedure set for previous special sessions of the General Assembly devoted to disarmament. At the same meeting, the Working Group decided to recommend that the item entitled "Fourth special session of the General Assembly devoted to disarmament" should be included in the agenda of the Disarmament Commission at its 1998 session.[1]

4. In view of the fact that no consensus was reached at the 1997 substantive session of the Disarmament Commission with regard to the convening of the fourth special session of the General Assembly devoted to disarmament, including its objectives and agenda, the Preparatory Committee for the Fourth Special Session of the General Assembly Devoted to Disarmament will not hold any meeting during 1997 and, therefore, no progress report has been prepared for the General Assembly as requested in paragraph 3 of resolution 51/45 C.

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[1] See Official Records of the General Assembly, Fifty-second Session, Supplement No. 42 (A/52/42).

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General and complete disarmament: consolidation of peace through practical disarmament measures

Report of the Secretary-General

I. Introduction

1. In its resolution 51/45 N of 10 December 1996, the General Assembly stressed the importance of measures such as the collection, control and disposal of arms, especially small arms and light weapons, coupled with restraint over the production, procurement and transfer of such arms, the demobilization and reintegration of former combatants, demining and conversion, for the maintenance and consolidation of peace and security in areas that have suffered from conflict; underlined the role of the United Nations in providing a political framework for such practical disarmament measures in those areas and in facilitating their implementation; requested the Secretary-General, in the light of experience gained from conflict resolution, to make recommendations and suggestions for an integrated approach to such practical disarmament measures, taking also into account the work of the United Nations expert panel on small arms, and to report thereon to the General Assembly at its fifty-second session; also requested the Secretary-General to seek the views of Member States on the subject and to include them in his report; called upon Member States, as well as regional arrangements or agencies, to assist the Secretary-General in his endeavours and to contribute actively to the implementation of such practical disarmament measures; and encouraged United Nations organs and agencies to join in that task within the framework of their responsibilities, in particular the United Nations Institute for Disarmament Research on the basis of its Disarmament and Conflict Resolution Project.

2. The present report is submitted in accordance with the request contained in paragraph 3 of that resolution.

II. Further developments

3. Since the adoption of resolution 51/45 N, a number of developments have taken place in the consideration of the subject. Of particular importance are the discussions that took place during the 1997 substantive session of the Disarmament Commission within the framework of its Working Group examining guidelines on conventional arms control/limitation and disarmament, with particular emphasis on consolidation of peace in the context of General Assembly resolution 51/45 N. The discussions covered both a more comprehensive and integrated approach to disarmament and specific proposals for practical measures. A commonly shared concern among the various proposals considered by the Disarmament Commission was to reduce human suffering caused by the actual use of weapons by giving attention to measures that prevent armed conflicts from reemerging through a consolidation of the peace process. The scope and framework for future guidelines is

* A/52/150 and Corr.1.

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provided in the Disarmament Commission Chairman's paper of 9 May 1997 (A/CN.10/1997/CRP.5, annex).

4. A working paper submitted by Germany and other sponsors of resolution 51/45 N (A/CN.10/194) concentrates on problem areas where practical disarmament measures can have an immediate impact. Proposals for disarmament, demobilization and reintegration of former combatants receive much attention, as do those for weapons buy-back programmes, curbs on illicit arms trade and greater donor country involvement in parallel progress on security and development among regions most affected by problem areas in conventional disarmament. A working paper submitted by China suggests principles and ways and means. Specific proposals on conventional arms control and limitations are made in the working paper by Pakistan. South Africa submitted a working paper on an approach that would address conventional arms build-up beyond legitimate purposes of self-defence as well as curtail proliferation and illicit trafficking. Lessons learned from the European conventional arms control negotiations are highlighted in a working paper by the United States of America. Detailed recommendations on regional approaches, confidence-building and capacity-building are made in a working paper submitted by Canada.

5. Issues of relevance to practical disarmament measures were discussed by the Panel of Governmental Experts on Small Arms in pursuance of General Assembly resolution 50/70 B of 12 December 1995. Its report makes recommendations of a practical nature to reduce excessive and destabilizing accumulations of small arms and light weapons already in circulation in regions that have experienced violent conflicts fought mostly with those weapons. It also makes practical proposals for monitoring and controlling excessive accumulation and proliferation of small weapons in the future, particularly through illicit and covert arms traffic. The report includes in its annexes the outcome of its inter-sessional work. The joint appeals, calls and statements in its annexes contain situation-specific proposals particularly suited to some of the subregions severely affected by recent armed conflicts. The Secretary-General expresses the hope that the proposals made in the report will be followed up by appropriate action at the national, regional and international levels.

6. The present report draws the General Assembly's attention to the useful work in this area being carried out by the United Nations Institute for Disarmament Research (UNIDIR) under its disarmament and conflict resolution project. The focus of the UNIDIR study series on the management of arms in peace processes is on field experiences of United Nations peacekeeping and other peace missions in Cambodia, Croatia and Bosnia and Herzegovina, Haiti, Liberia, Mozambique, Rhodesia/Zimbabwe and Somalia. Under the same project, UNIDIR has also prepared an empirical study on small arms management and peacekeeping in Southern Africa. In its studies under the disarmament and conflict resolution project entitled "Managing arms in peace processes: the issues" and "Managing arms in peace processes: aspects of psychological operations and intelligence", UNIDIR has analysed various substantive issues related to the linkages between the management of arms during peace processes and the settlement of conflict.

7. The Institute's findings may be relevant in the continuing discussions on the contribution of practical disarmament measures to the consolidation of peace.

III. Observations and recommendations

8. As pointed out in my report entitled "Renewing the United Nations: a programme for reform", disarmament is a central issue on the global agenda (A/51/950, para. 122). The emergence of new dangers and actors has added to the urgency of the tasks that the United Nations is called upon to perform in the area of disarmament. With nations everywhere recognizing their stakes in monitoring weapons-related developments, the United Nations has taken centre stage in worldwide efforts to limit both weapons and conflict.

9. To respond effectively to the priorities of Member States in the disarmament area, I am undertaking a managerial reorganization of the Secretariat's capacities. With the establishment of a new Department for Disarmament Affairs and Arms Regulation, a structure will be in place to carry out the United Nations mission and mandate in this vital field of the Organization's responsibilities.

10. The adoption by consensus of General Assembly resolution 51/45 N is a significant confirmation of the international community's readiness to address the increasingly serious issue of practical disarmament in the context of the conflicts the United Nations is dealing with and of the weapons, most of them small arms and light weapons, that are killing large numbers of people and causing massive destruction and human suffering in many parts of the world.

11. In the light of experience gained by the United Nations through efforts at conflict resolution, consideration should be given to incremental steps leading to a more integrated

approach to practical disarmament measures, particularly in post-conflict situations. Among such steps, there is a clear need:

(a) To include weapons-related issues as an integral part of peace accords where the United Nations is involved in bringing an end to armed conflicts and in consolidating the peace process to prevent their reemergence. An illustrative sample of such issues would be retrieval, storage and safeguarding of weapons belonging to demobilized personnel, destruction of ammunition and weapons buy-back programmes;

(b) To promote an exchange of national and subregional experiences in the collection, control and disposal of arms, especially small arms and light weapons, and the reintegration of former combatants into civil society at the end of armed conflicts;

(c) To encourage harmonization of national legislation to monitor transboundary traffic on illicit arms and the pooling together of information about acts of criminality across national frontiers;

(d) To generate a better public understanding of practical disarmament measures intended to maintain and consolidate peace and security in areas that have suffered from armed conflicts through the collection and dissemination of information about the direct and indirect consequences of excessive accumulation, proliferation and use of weapons, including light weapons;

(e) To encourage greater transparency in military matters and seek wider adherence to tools of confidence-building, such as periodical reporting of military expenditures and establishment of registers for specific categories of conventional armaments.

12. Effective implementation of practical disarmament measures will greatly benefit from the international community's readiness to assist the affected States in their efforts to consolidate peace. I would wish to see the establishment of a group of interested States to facilitate this process and to build upon the momentum generated.

13. The replies received in response to paragraph 4 of resolution 51/45 N are reproduced in section IV below. Further replies from Member States will be issued as addenda to the present report.

IV. Information received from Governments

Canada

[6 August 1997]

1. Paragraph 3 of General Assembly resolution 51/45 N, entitled "Consolidation of peace through practical disarmament measures", requests the Secretary-General, in the light of experience gained from conflict resolution, to make recommendations and suggestions for an integrated approach to such practical disarmament measures, taking also into account the work of the United Nations expert panel on small arms, and to report thereon to the Assembly at its fifty-second session. Paragraph 4 requests the Secretary-General, in that connection, to seek the views of Member States on the subject and to include them in his report.

2. In response to the request in paragraph 4, Canada is pleased to provide its views on this important subject. This submission will briefly highlight the nature of the problem and why Canada sees it as an important one, as well as summarize key recommendations from a background paper prepared by Canada on this subject.

3. Canada shares the view articulated in 1995 by Secretary-General Boutros Boutros-Ghali that there is an urgent need for practical disarmament in the context of the conflicts with which the United Nations is actually dealing and with the weapons, especially small arms and light weapons, that are actually killing thousands of people each year. This is an important subject that has received relatively little attention until recent years.

4. Two recent initiatives by the United Nations bear special mention in this context. The first is the establishment by the General Assembly in its resolution 50/70 B of a United Nations Panel of Governmental Experts on Small Arms. This Panel, which concluded its deliberations on 18 July and is to report to the Assembly at its fifty-second session, has examined the types of small arms and light weapons used in conflicts with which the United Nations deals, the nature and causes of excessive and destabilizing accumulations and transfers of such weapons and the ways in which such excessive and destabilizing accumulations and transfers can be prevented and reduced. The Panel constitutes an important opportunity to explore those issues and to determine a set of practical measures to address those concerns.

5. The second initiative is the work begun by the Disarmament Commission at its 1997 session on guidelines

on conventional arms control/limitations and disarmament, with particular emphasis on consolidation of peace in the context of General Assembly resolution 51/45 N. The resolution in question, and the one to which this submission responds, stresses the particular importance of certain practical disarmament measures for the maintenance and consolidation of peace in areas that have suffered conflict. Following from this, the aim of the Disarmament Commission exercise is to develop guidelines for a comprehensive approach to the development and implementation of such practical measures.

6. Canada is a strong supporter of both of those initiatives. In addition, Canada is working closely with many other countries in pursuing efforts to achieve a global ban on anti-personnel landmines, an arms control undertaking which would help address a key obstacle to successful peace-building in a number of post-conflict situations.

7. Recent experience demonstrates that it is critical, particularly to the success of peace-building in post-conflict environments, to address the disarmament, demobilization and reintegration of the former combatants. Effective programmes in this regard have several benefits:

(a) They reduce the chances of renewed hostilities at the same level of violence and destruction;

(b) They help preclude the use in criminal activities of leftover military-style weapons and the social and economic disruption that can flow from such activities;

(c) They provide the basis for the re-establishment of confidence in social institutions, such as the judicial system and police, as well as a secure environment for normal peaceful interaction;

(d) They can provide for the removal of mines and explosive ordnance, which can reopen territory for peaceful use.

8. In order to facilitate discussion of the subject of consolidation of peace through practical disarmament measures at the 1997 session of the Disarmament Commission, Canada prepared and distributed a background report entitled "Practical disarmament, demobilization and reintegration measures for peace-building", as well as tabled a working paper containing the principal findings and recommendations from the background paper (A/CN.10/1997/WG.III/WP.1). That background paper contains a detailed set of recommendations for action at the international, regional and national levels.

9. Canada strongly supports an integrated approach with respect to the design and implementation of the practical disarmament measures within a peace-building process. The background paper recommends an integrated approach by United Nations agencies to security and development challenges and a leadership role by the United Nations Development Programme (UNDP) and the World Bank to help promote such an approach among the international donor community. It is Canada's understanding that this emphasis is echoed by the United Nations Panel of Governmental Experts on Small Arms in one of its recommendations, which calls for the United Nations to extend the proportional and integrated approach to security and development initiated with respect to Mali and other West African States to other regions suffering from the aftermath of conflict and the proliferation of small arms and light weapons. Canada understands as well that the Panel also recommends that the United Nations support, with the assistance of the donor community, all appropriate post-conflict initiatives related to disarmament and demobilization. Further, the recommendations of the Panel also appear to place considerable emphasis on the importance of the disarmament aspects of peacekeeping operations and include a suggestion to develop guidelines for both the negotiation and implementation phases of the disarmament mandate.

10. In its background paper, Canada demonstrates, through a series of case studies of United Nations peace and security operations, that the substantial completion of the disarmament component of a peacekeeping mandate is fundamental to the longer term stability of the country or region in question. Disarmament, demobilization and reintegration programmes are politically, institutionally and logistically complex and sensitive operations, which demand considerable financial, human, technical and organizational capacity. Expertise and support from the international community are essential in order to plan, coordinate and implement effectively such programmes. In addition to expertise and support relating to the political, diplomatic and military aspects of designing and negotiating a disarmament, demobilization and reintegration programme, financial and developmental assistance from the international donor community, humanitarian agencies and non-governmental organizations have proven equally essential. Ensuring that the parties themselves are fully involved in the planning and implementation phases and that every effort is made to reinforce local capacities and expertise are other lessons learned from recent United Nations peace-support operations.

11. Based on its review of the cases, Canada in its background paper describes essential conditions for a successful disarmament, demobilization and reintegration programme, identifies possible obstacles and constraints and

recommends the use of a generic model for disarmament, demobilization and reintegration programmes in the context of peace-building. The outline of one such model is contained in the background paper itself. Among other recommendations contained in the background paper are the following:

(a) Continued support for and promotion of regional approaches on confidence-building and transparency in military matters;

(b) Renewed focus on regional arms registers including small arms and light weapons as well as on standardized reporting mechanisms for military budgets;

(c) Promotion of a multilateral dialogue at the global level with the aim of broadening the acceptance and coverage of arms export, disarmament and transfer arrangements, especially in the area of small arms and light weapons;

(d) Promotion by the United Nations and regional and subregional organizations of regional and subregional dialogue to heighten awareness of and facilitate cooperation in relation to small arms controls, including the possibility of cross-regional meetings to share experiences;

(e) Promotion of exchanges between United Nations bodies studying various aspects of small arms/firearms control;

(f) Promotion of discussion in all appropriate forums between suppliers and recipients of conventional armaments, particularly in relation to small arms and light weapons transfers;

(g) When preparing for the negotiation of a peace agreement in a peace-building context:

(i) Involve the United Nations (or representatives of the appropriate international implementing body) early;

(ii) Involve technical advisers on the disarmament, demobilization and reintegration dimensions;

(iii) Develop generic guidelines or "protocols" as well as standard operating procedures for the implementation of the disarmament aspects of peace plans, supported by appropriate databases;

(iv) Develop a generic disarmament, demobilization and reintegration programme model as a guide for negotiation, implementation and training, which should include an integrated technical mission as early as possible in the negotiation process, a strong programme of public information, agreed procedures for weapons collection and destruction, carefully planned incentive programmes, the public destruction of weapons collected and integrated planning and implementation within the overall peace-building process, covering the continuum of disarmament, demobilization and reintegration aspects;

(h) Incorporation into national peacekeeping training programmes of a component dealing with the cooperation/coordination aspects among all partners (military, police, humanitarian, human rights, finance and development) in modern peacekeeping operations;

(i) Sponsorship by the UNDP/World Bank of joint meetings of the security and development communities on issues of adequate financing in connection with the aspects of peace-building related to disarmament, demobilization and reintegration programmes;

(j) Continued implementation of the rapidly deployable headquarters concept.

12. Canada believes that a productive debate ensued in the Disarmament Commission in this the first year of its three-year consideration of the consolidation of peace item. Seven working papers were submitted, and a well-developed Chairman's paper was forwarded "with general agreement" to the Commission at its 1998 session.

13. It is Canada's view that the experience of the United Nations in modern peace-support operations has overwhelmingly demonstrated the need for an integrated approach by the international community in general and the United Nations in particular in order to respond effectively to complex emergencies. Multifaceted mandates require a multidisciplinary approach and an ability to coordinate effectively a range of military and civilian actors. And this need for such an integrated approach does not end with the peacekeeping phase of the mission, but is equally important in follow-on peace-building efforts intended to consolidate the peace.

14. The development of the "framework for coordination" and the creation of the Department of Humanitarian Affairs represent two concrete examples of the effort by the United Nations to better coordinate its own departments and the specialized agencies to the extent possible. The proposals tabled by the Secretary-General in the General Assembly on 16 July 1997 represent a further bold attempt to achieve better coordination of the United Nations system as a whole. His report points out that "present-day conflicts have many dimensions that must be addressed comprehensively and

require more integrated and coordinated action" (A/51/950, para. 117). The practical disarmament dimension of the "concurrent and integrated actions undertaken at the end of a conflict to consolidate peace and prevent a recurrence of armed confrontation" (para. 120), in Canada's view, requires greater and more systematic attention.

15. Regrettably, however, this need for such an integrated approach has yet to be fully embraced in the context of the various disarmament forums of the United Nations. In this regard, it is interesting to note that, as a rule, those delegations that have been either the practitioners or the recipients of practical disarmament measures in post-conflict peace-building situations are also those who most strongly agree that an integrated approach, drawing on all relevant expertise along the disarmament and development continuum, is what is urgently required.

16. Canada believes that the United Nations has accumulated unparalleled expertise over the years regarding the consolidation of peace through practical disarmament measures, including on issues relating to the proliferation of small arms and light weapons in the aftermath of conflict. This is amply demonstrated by the case studies reviewed in the Canadian background paper. It is both appropriate and necessary, therefore, that the United Nations seize the opportunity to provide leadership and purpose to the growing international effort in this area. To this end, Canada sincerely hopes that the views contained in the present submission, together with the detailed findings and recommendations contained in the background paper, will assist in this important task.

European Union

[2 July 1997]

1. The members of the European Union have supported the consensus on General Assembly resolution 51/45 N entitled "Consolidation of peace through practical disarmament measures". We wish to provide the following common reply[1] to paragraph 4 offering elements for the Secretary-General's report to the General Assembly at its fifty-second session in which the Secretary-General is requested, in the light of experience gained from conflict resolution, to make recommendations and suggestions for an integrated approach to practical disarmament measures. The European Union recognizes that important work on the issue has been and is being pursued in other forums, and we believe this work should also be taken into account.

A. Disarmament, demobilization and reintegration of combatants

2. Disarmament, demobilization and reintegration of combatants have to be seen in the wider political framework of conflict resolution and will, in a post-conflict environment, succeed only in a climate of mutual confidence. Efforts to disarm, demobilize and reintegrate combatants should therefore be integrated into a larger comprehensive strategic framework for internationally supported post-conflict recovery worked out in close collaboration between the parties themselves, international organizations and donor Governments. Disarmament, demobilization and reintegration of combatants will, in the process of post-conflict peace-building, also contribute to preventing conflicts from reemerging and new conflicts from erupting. Demobilization and demilitarization are key elements in preventing violent behaviour and criminality from spreading in a fragile post-conflict society.

3. A sound peace agreement that is generally accepted by the parties as a fair and just compromise respecting basic human (political and economic) rights is the best basis for subsequent efforts to disarm, demobilize and reintegrate combatants. Such measures can be most effectively pursued if they are explicitly agreed upon, since consent of the parties is essential to the effective implementation of those measures. To the extent possible, special provisions for the disarmament, demobilization, reintegration and creation of new unified armed security forces (integrating the opposition forces) should therefore be agreed upon in the course of negotiations leading to a formal peace agreement and should be explicitly spelled out in the peace agreement. This serves to clarify the responsibilities of the parties and the conditions for the demobilization and thus facilitates further demilitarization of the society. Such provisions should include precise prescriptions for the collection, dismantlement and disposal of excess arms not needed for national security forces and for the overall size and composition of the new unified armed forces once the peace settlement is implemented. It is of equal importance to include, where possible, appropriate references in the respective mandates of peacekeeping operations and to

[1] The Netherlands, on behalf of the European Union as well as the following associated countries, have aligned themselves with this reply: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Iceland and Norway have also aligned themselves with this reply.

foresee explicit provisions for the transition to the post-conflict phase.

4. Lasting success in disarmament and demobilization depends on the extent to which former warring parties and individuals believe that their physical and economic security is maintained even after relinquishing their arms and abandoning what for many was not just an activity but also a way of life. This requires the establishment of a minimum of police authority.

5. Disarmament, demobilization and reintegration are interrelated. Demobilization is possible only when there is at least a certain degree of disarmament. Similarly, the success of demobilization efforts is contingent upon the effective rehabilitation of former combatants and their integration into civilian life or the restructured army.

6. During the consolidation phase, a period of cantonment is necessary to deter the disarmed combatants from returning to their respective warring parties and to facilitate the process of reintegration. The duration of cantonment should be specified in the peace agreement.

7. The entire process, from disarmament to the social and economic reintegration of ex-fighters, has to be planned and prepared well in advance. Early planning must include definition of the respective roles and mandates of the different humanitarian and peacekeeping actors involved at each stage and agreement on sources of funding for the different stages of the process. The resource requirements should be specified from the outset in order to allow for efficient resource mobilization from internal and external sources. Early involvement of the international financial institutions should be sought for the demobilization and reintegration phases of the process. Without this level of planning and preparation, delays in disarmament and demobilization may cause armies to disintegrate in an unplanned manner, and delays in reintegration programmes may cause ex-soldiers to resort to banditry, both of which, among other things, lead to new problems of armaments control.

8. Above all, the security of the assembly areas must be ensured. In addition, appropriate infrastructure and provisions (e.g., health care, nutrition and housing) for former combatants should be in place for a determinate period during the consolidation phase. Division of roles and responsibilities between internal and external actors must be clear. The international community should be prepared to assist.

9. Transparency of the arms collection process is vital. Storage sites should preferably be guarded by an external military presence on a mandatory basis.

10. Requirements for new security forces should be precisely defined. All other weapons should be declared to be in excess and destroyed, preferably in public and as expeditiously as possible. Strict controls should be provided for at all stages in the peace process to ensure that the commitments given by the parties with respect to disarmament are abided by.

11. United Nations missions should be equipped with sufficient standard mobile equipment for small arms destruction. Such equipment is low-cost and should be regularly introduced into theatre operations at an early stage.

12. Reintegration efforts have been most successful where they have been community-based and have involved demobilized combatants directly in the planning and implementation of programmes.

13. Professional opportunities (e.g., training and occupational opportunities) have to be created for demobilized soldiers so that they do not return to their armies or take up banditry. Equally important are special measures directed at the psychosocial rehabilitation of the former combatants and the reintegration of vulnerable groups such as child soldiers and the disabled. Efforts aimed at reconciliation, including truth commissions and amnesties, are a precondition for peaceful coexistence. In the end, however, long-term success will depend on the economic and political rehabilitation of the country as a whole.

14. An effective independent public information campaign is needed to ensure that combatants and civilians have confidence in the disarmament, demobilization and reintegration programme and in the peace process in general.

B. Demining

15. Demining is often one of the most critical challenges in post-conflict environments. The tremendous humanitarian problem caused by mines and other unexploded devices can have serious and lasting social and economic consequences for the populations of mine-infested countries and constitutes an obstacle to the return of refugees and other displaced persons, to humanitarian aid operations and to reconstruction and economic development, as well as to the restoration of normal social conditions.

16. Provisions for demining should be, where necessary and appropriate, an explicit element and an integral part of peacekeeping mandates.

17. Comprehensive demining is, however, a long-term venture, and demining activities should focus on reducing risks to civilians and on the creation and strengthening of local demining capabilities and mine awareness programmes. Except for humanitarian situations, where demining is undertaken for the direct benefit of vulnerable communities or for obtaining access for relief operations, support for mine clearance should be provided to countries whose authorities cease further use of anti-personnel landmines and take steps to cease the trade, manufacture and stockpiling of the weapons.

18. The international community, with the States involved in the deployment of mines having particular responsibility, can play an important role in assisting mine clearance in affected countries through the provision of necessary maps and information and appropriate technical and material assistance to remove or otherwise render ineffective existing mines, booby traps and other devices.

19. Wherever possible and appropriate, mechanical mine-clearance systems, other methods based on new technology and dogs, which help to make demining faster, safer and most cost-effective, should be applied.

20. In the context of United Nations demining activities, coordination and a clear delineation of responsibilities between the Department of Peacekeeping Operations Demining Unit and the Department of Humanitarian Affairs Mine Clearance and Policy Unit should be further improved so as to avoid duplication of efforts and to guarantee a coherent and integrated approach towards the whole range of short- and long-term demining needs. Coordination efforts should be guided by General Assembly resolution 51/149 of 13 December 1996 on assistance in mine clearance, which emphasizes the lead responsibility of the Department of Humanitarian Affairs.

C. Further stabilizing and confidence-building measures to consolidate peace and security

21. In addition to demobilizing and reintegrating combatants and demining, post-conflict consolidation of peace must address the excessive and potentially destabilizing accumulation of small arms and light weapons typically found in countries after conflicts. The nature of the interventions will vary according to the specific context, but the measures outlined below, among others, may be considered in the interest of consolidating national security, preventing further regional proliferation and combating illicit arms trafficking (understood to cover international trade in conventional arms that is contrary to the law of States and/or international law), thereby contributing to conflict prevention in the process of post-conflict peace-building.

National: Collection and control of weapons

22. Weapon turn-in programmes, also known as buy-back programmes, have sometimes proved useful where all factions are committed to the peace process and effective measures have been taken to restore public security. They may be appropriate to some future operations, but their likely impact needs to be considered carefully.

23. Incentive programmes should also be created for combatants and civilians to indicate weapons and munitions caches and storage sites.

24. Strategies for effective weapons seizure programmes resulting in a decline in armed violence should be further developed. This requires both a cooperative attitude to create trust and confidence among the parties and the capability to proceed against reticent subordinate units, irregular forces and organized banditry to ensure that weapon seizure missions can be completed successfully and without violent clashes.

25. States should ensure that they have an adequate system of national laws and/or regulations and administrative procedures to exercise effective control over armaments and the export and import of arms in order, among other goals, to prevent illicit arms trafficking. States emerging from conflict should thus, as soon as practicable, impose licensing requirements for all weapons holdings.

26. States should train adequate numbers of security forces for the effective implementation and enforcement of their arms and export-control policies, who must exercise their duties with full respect for human rights. In this context the elaboration of a national code of conduct for security forces might be appropriate.

National: Conversion

27. Military resources (including respective production facilities) exceeding legitimate security requirements should be converted to civilian use, if possible, or destroyed.

Regional: Control of weapons

28. States receiving arms have a responsibility to seek to ensure that the quantity and the level of sophistication of their arms imports are commensurate with their legitimate self-defence and security requirements and that they do not contribute to instability and conflict in their regions or in other countries and regions or to illicit trafficking in arms.

29. In general, arms-producing or supplier States have a responsibility to seek to ensure that the quantity and level of sophistication of exported arms do not contribute to instability and conflict in their regions or in other countries and regions or to illicit trafficking in arms. They have a particular responsibility to ensure that arms transfers to countries in the state of peace consolidation correspond strictly with the stipulations in the respective peace agreement and with the policy of the State concerned.

30. States in the neighbourhood of a State in the course of peace consolidation should, as appropriate, cooperate closely, sharing customs and intelligence information on the storage and movement of arms. They should consider coordinated and enforced border controls in order to prevent illicit arms trafficking into and out of the country concerned. They should also set up joint programmes for the destruction of excess weaponry intercepted in this activity.

31. States should intensify international cooperation in the relevant field of criminal law. They should assist each other in the development and enforcement of effective national controls, with a view to curbing the evasion of justice by illicit arms traffickers.

Regional: Arms registers, arms control

32. As a confidence-building measure, States could be encouraged to create regional arms registers, complementing the existing United Nations Register of Conventional Arms, focusing on weapons of particular concern in the region.

33. States should strive for regional arms control and confidence-building agreements aimed at the prevention and reduction of the excessive and destabilizing accumulation of weapons.

Global: Control of weapons

34. The United Nations has an important role to play in the field of international arms transfers and the eradication of illicit arms trafficking in accordance with its overall purposes and principles. The cooperation of the international community, however, is essential for the United Nations to be successful in those endeavours.

35. The United Nations should follow up the arms control process during peace consolidation and where possible assist the State concerned in its efforts to promote the process of controlling, collecting and destroying small arms, light weapons and related ammunition.

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Debt situation of the developing countries as at mid-1997

Report of the Secretary-General

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* A/52/150 and Corr.1.

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I. Introduction

1. The General Assembly, concerned about the severe impact that the debt crisis was having on development and international economic stability, intensified its monitoring of the external debt problem of developing countries in 1986. Since then, the Assembly has contributed to the evolving international consensus over the strategies necessary to reduce the debt overhang of heavily indebted developing countries through its annual discussions and resolutions on the matter.

2. In the past few years, a new debt relief initiative was prepared by the World Bank and the International Monetary Fund (IMF) for a group of heavily indebted poor countries, many of which are in Africa. It has been endorsed by the Interim Committee of the Fund and the Development Committee of the Bank, as well as by the General Assembly, and represents a potentially important advance in the debt strategy. It embodies the principle, long sought in international deliberations, of a durable solution to the debt crisis based on equitable burden-sharing among all creditors, including multilateral institutions. Putting the Heavily Indebted Poor Countries Debt Initiative into practice, however, will require a high degree of international commitment to implementing debt-relief policies. It deserves full implementation in a timely and flexible manner in all the countries that warrant the high degree of relief that it entails.

3. The present report was prepared pursuant to General Assembly resolution 51/164 of 16 December 1996. It contains information on implementation thus far of the Initiative and on other dimensions of the debt situation of developing countries and policy measures to address them.[1] As with previous reports in this series, it was prepared in consultation with IMF, the World Bank and the United Nations Conference on Trade and Development.[2] The views expressed herein, however, are those of the United Nations Secretariat.

II. Recent trends in external debt

4. The external debt of net-debtor developing countries exceeded $1.8 trillion at the end of 1996, having risen by an estimated $110 billion during the year, or 6.4 per cent (see figure 1). About 45 per cent of this was owed by countries deemed to be severely indebted, (see table).[3]

5. While net borrowing raised external debt moderately in 1996 in Africa and Latin America (with a growth of 4 per cent and 3 per cent, respectively), the increase was a strong 10 per cent in Asia. Because the relative size of these increases has persisted for a number of years, Asia's share of total debt rose from 33 per cent to 46 per cent during the last decade. By the same token, Latin America's share dropped from 44 per cent to 36 per cent.[4] Africa's share also dropped in the same period, from 23 per cent to 18 per cent of the total, reflecting the continent's limited capacity to borrow new funds in the light of its still substantial debt overhang.

6. Lending by private creditors was once again the fastest growing component of long-term debt last year, rising nearly 12 per cent. This followed a temporary slowdown in 1995, which was largely a consequence of the private capital flight and official rescue packages for Mexico and Argentina. The quick return of private flows to those two countries, however, is particularly noteworthy. The overall growth of private lending was strongest in Asia (14 per cent); it grew 11 per cent in Latin America, while Africa continued to have more limited access to private capital (with a 7 per cent growth in 1996, mainly to South Africa). The share of private creditors in Africa's long-term debt remains a mere 25 per cent, compared to over 60 per cent in Latin America and 45 per cent in Asia (see figure 2).

7. Indeed, one source of the difficulty in resolving the debt situation of many African countries is the high share of debt owed to multilateral creditors, which measured 31 per cent in 1996 (see figure 2). The lending that created that debt was partly to support structural adjustment, but mainly for long-term social and economic investment. When economic circumstances required deep restructuring of the debt, however, the multilateral debt had to be excluded, limiting the degree of relief possible. This is one reason that the Heavily Indebted Poor Countries Debt Initiative is potentially so important.

8. In 1996, for the first time since the onset of the debt crisis in the early 1980s, the outstanding stock of official debt declined. The drop was largely the consequence of the exceptional official rescue packages for Mexico and Argentina, which made the 1995 value rise unusually and then reduced the 1996 one, owing to the pre-payment of some of that debt through refinancing in private markets. At the same time, however, total disbursements less repayments of concessional loans fell almost to zero, as larger net disbursements by multilateral creditors were offset by falling net bilateral flows.

9. Changes in the level of debt are hard to interpret. In normal circumstances, growing developing countries should see their external debt rising, reflecting foreign borrowing to supplement domestic resources for investment.

Difficulties arise when the borrowing is excessive. It is thus common practice in evaluating the capacity of countries to carry a given debt burden, to compare the growth of debt with the growth of exports of goods and services (which provide the foreign exchange for debt servicing) and gross national product (GNP), which is the broadest measure of income of the nation. In addition to tracing trends in the ratio of debt to exports and debt to GNP, analysts also typically calculate the ratio to exports of debt servicing (that is to say, interest plus principal payments).

10. On the basis of these three indicators, the overall debt situation of net-debtor developing countries continued to improve in 1996. Both the debt-to-exports ratio and the debt-to-GNP ratio declined to their lowest levels since the onset of the debt crisis.[5] The faster growth of output and export earnings that many developing countries have begun to experience mainly accounts for this, although some debt forgiveness in Africa also served to hold down the ratios in that region.

11. The regional debt-servicing ratios showed a more divergent pattern, which explains why the overall debt-service ratio did not fall in 1996. As may be seen in figure 3, in contrast to Africa and Asia, the debt-service ratio rose significantly in Latin America in 1996; but this was a temporary phenomenon, largely owing to the exceptional $7.5 billion principal pre-payment by Mexico to its official creditors as part of the refinancing of its 1995 package, as noted above.[6]

12. The debt-servicing trend in Africa, which has improved in recent years, nevertheless remains difficult. In the 1980s, the debt-servicing ratio of Africa was significantly below that of the net-debtor developing countries. During most of the 1990s, however, it was higher than the average of all countries. As may be seen in figure 3, Africa's ratio did fall below the average in 1995 and 1996, as export earnings growth was unusually strong in those years. However, export earnings are forecast to grow more slowly in 1997, and the debt-servicing ratio is likely to rise.[7] Moreover, the African debt-servicing ratio would have been higher if all debt-servicing due had been paid; continued accumulation of arrears shows that not to have been the case.[8]

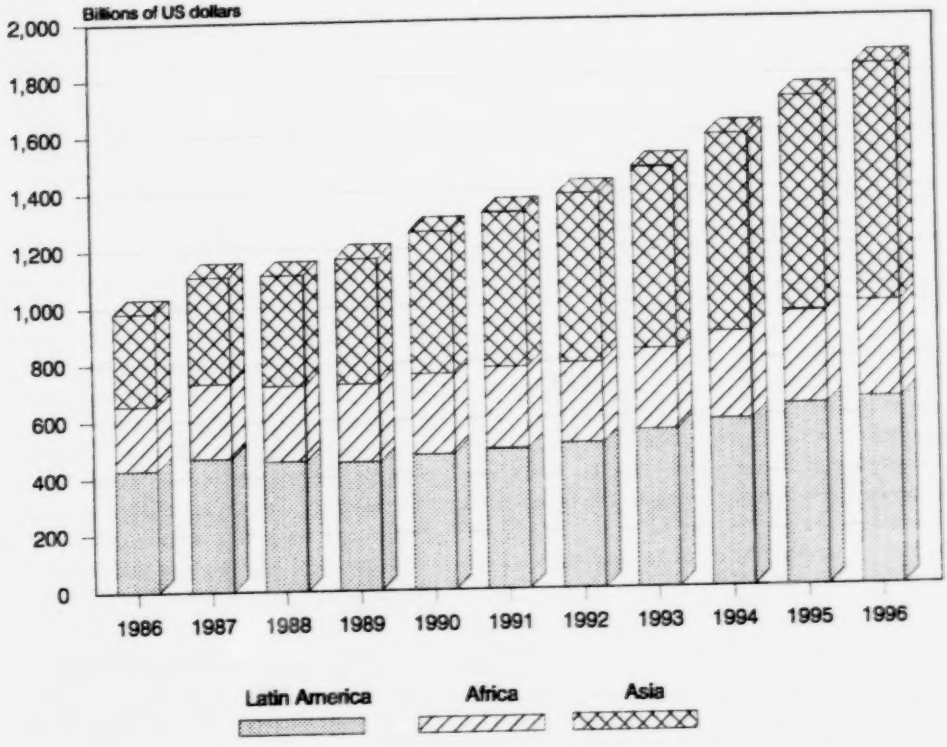
13. While aggregated data, such as have been discussed here, give one perspective on the debt situation of developing countries, the aggregates encompass a broad range of individual country situations. In order to get a fuller picture, examination of debt indicators at the country level is necessary (see the list of developing countries classified by the World Bank as "severely indebted" in the table). In 1997, the World Bank listed 51 developing countries as severely indebted , that is, as having either a ratio of the present value of debt service to GNP of over 80 per cent, or a ratio of the present value of debt service to exports of over 220 per cent, each ratio averaged over the three years from 1993 to 1995.[9] The World Bank's 1997 list was as long as its 1996 list.

14. As has long been the case, the composition of the list of severely indebted countries is notable in at least two respects. Firstly, 13 of the 51 countries included are middle-income countries, reminding us that debt vulnerability is not an exclusive feature of the poorest countries. Moreover, although Africa remains by far the most heavily represented region, 19 countries are from other regions, reaffirming the broader scope of the problem.

15. But Africa does remain a central concern in the realm of international debt policy, especially sub-Saharan Africa. The debt of Nigeria and 19 smaller countries exceeds their GNP. Moreover, accumulated arrears on principal and interest on long-term debt accounted for 28 per cent of the grouping's total debt at the end of 1996. Arrears accounted for one third of the total debt of the group of least developed countries.[10] Many of the countries accumulating arrears are experiencing civil war and strife, while others are recording stagnant growth of output and exports. For all the countries with debt difficulties, the debt overhang discourages investment and puts additional strain on the implementation of structural adjustment and reform.

16. The indicators underlying the World Bank's list are, in any event, not intended to be fully comprehensive measures of the debt situation. One aspect, among others, that is not captured by the indicators is the impact of domestic fiscal constraints on a country's debt-servicing capacity. In view of their limited focus, such indicators should therefore be used only as part of a broader sustainability analysis at the country level, which is indeed the approach increasingly being taken in practice in consideration of individual country debt relief needs.

Figure 1. Foreign debt of net debtor developing countries, 1986-1996

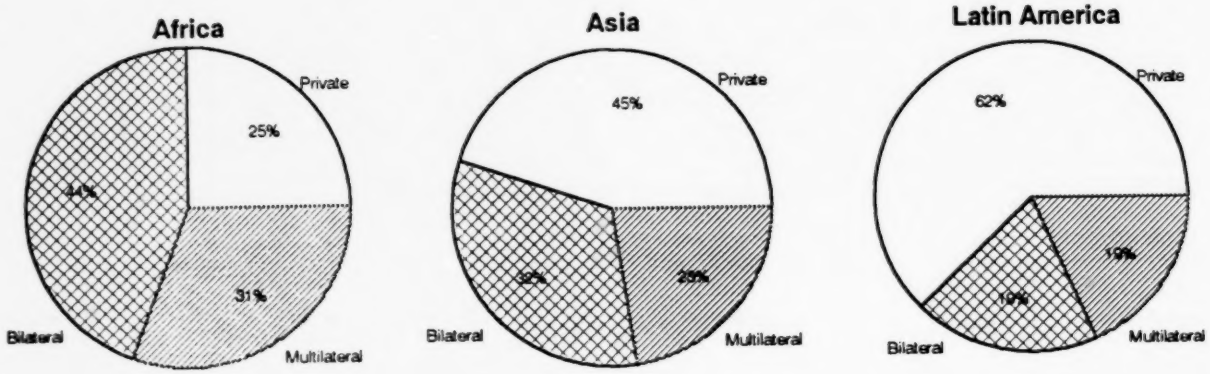


Source:

United Nations Department of Economic and Social Affairs, based on IMF, Organisation for Economic Cooperation and Development (OECD) and World Bank data.

Figure 2. Composition of long-term debt by region, 1996

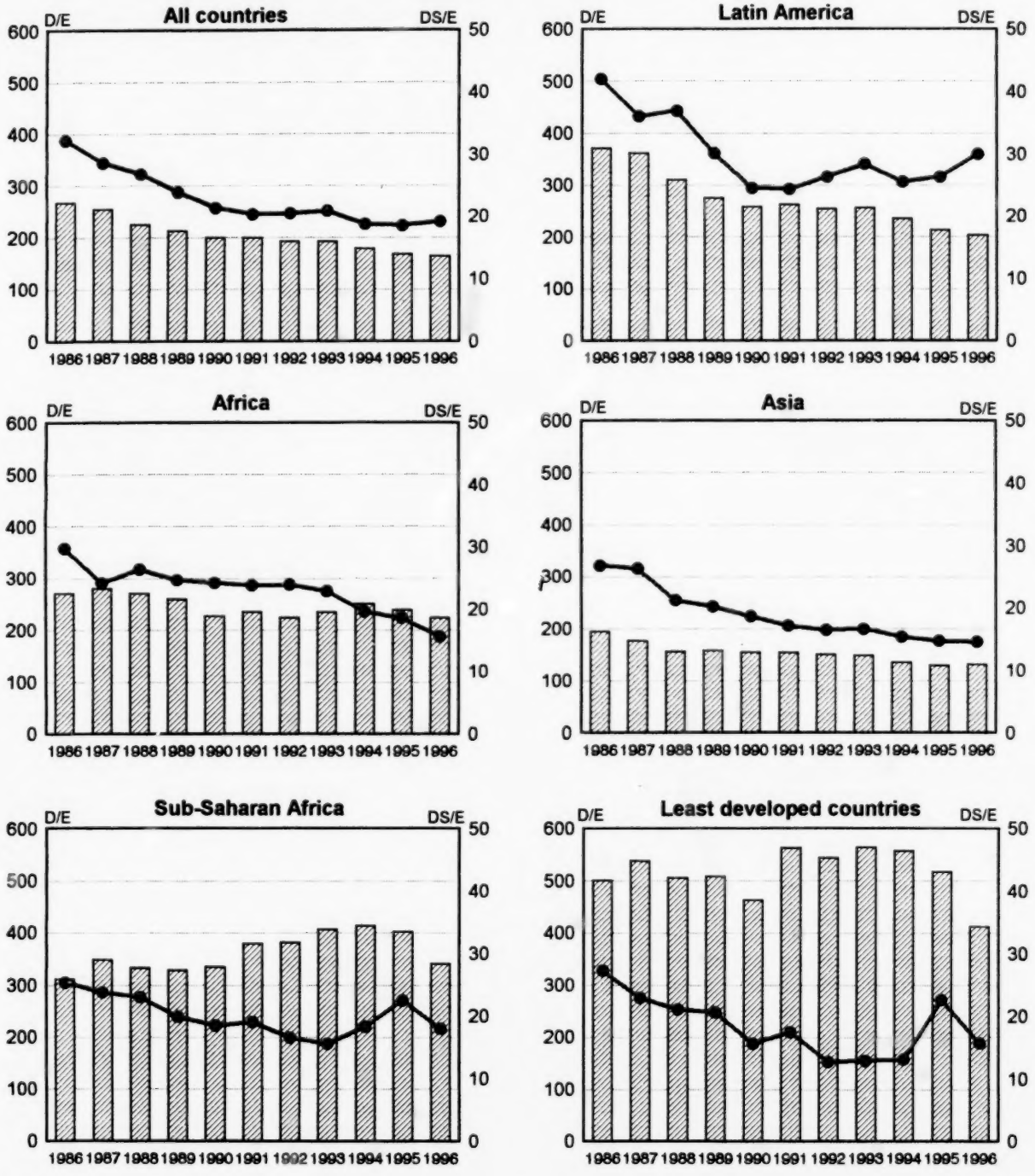
(Percentage)



Source:

United Nations Department of Economic and Social Affairs, based on IMF, OECD and World Bank data.

Figure 3. Selected debt indicators for net debtor developing countries,1986-1996



Source:

United Nations Department of Economic and Social Affairs, based on IMF, OECD and World Bank data.

Ratio of external debt to exports (D/E)
Ratio of debt service to exports (DS/E)

Developing countries classified as severely indebted by the World Bank[a]

Low income countries[b]	*Middle-income countries*[b]
Angola	Argentina
Burundi	Bolivia
Cambodia	Brazil
Cameroon	Ecuador
Central African Republic	Gabon
Congo	Jamaica
Côte d'Ivoire	Jordan
Equatorial Guinea	Mexico
Ethiopia	Panama
Ghana	Peru
Guinea	Syrian Arab Republic
Guinea-Bissau	
Guyana	Cuba[c]
Honduras	Iraq[c]
Kenya	
Liberia	
Madagascar	
Malawi	
Mali	
Mauritania	
Mozambique	
Myanmar	
Nicaragua	
Niger	
Nigeria	
Rwanda	
Sao Tome and Principe	
Sierra Leone	
Somalia	
Sudan	
Togo	
Uganda	
United Republic of Tanzania	
Viet Nam	
Yemen	
Zaire	
Zambia	
Afghanistan[c]	

[a] Countries in which the ratio of the present value of debt servicing to exports is above 220 per cent or the ratio of the present value of debt servicing to GNP is above 80 per cent.

[b] Countries are classified as low-income if their 1995 GNP per capita is $765 or less and middle-income if their 1995 GNP per capita is more than $765 but less that $9,385.

[c] Countries not reporting to the World Bank's debtor reporting system.

Source:

World Bank, *Global Development Finance, 1997*, vol. 1 (Washington, D.C., March 1997), pp. 61-62.

III. The international debt strategy: an update

17. The international strategy for assisting countries faced with severe debt burdens has included two main elements: (a) the adoption by debtor countries of macroeconomic stabilization and economic reform programmes supported by multilateral financial institutions, usually with new financing; and (b) debt restructuring involving some combination of rescheduling, partial cancellation of debt-service obligations and reduction of the stock of debt. Debt relief, in particular that accorded by official creditors, is normally extended *pari passu* with evidence of strengthened macroeconomic policies.[11] Over the past decade, the debt strategy has evolved towards increasing the degree of concessionality of external assistance to low-income countries, as the severity of the debt overhang of such countries was increasingly recognized. The main operations under the international debt strategy during 1996 and the first half of 1997 are reported below

A. Bilateral official creditors

18. The servicing of bilateral official debt is normally restructured in the framework of the Paris Club, where creditor Governments agree to offer a common set of terms for relief. The debtor Government then negotiates a set of implementing bilateral agreements with individual creditors. To ensure equitable burden sharing among the various categories of creditors, Paris Club agreements include a comparability clause, under which the rescheduling country pledges to seek at least comparable debt relief from commercial bank and non-Paris Club bilateral creditors.

19. In the early 1980s, Paris Club reschedulings were provided to low-income countries on the same terms as to middle-income countries, that is to say, with payments deferred and spread over relatively short periods (up to 10 years), including a grace period on principal payments, and with market interest rates charged on outstanding balances. However, as new official credits were extended in this period, and as unpaid interest obligations were partly capitalized in some cases, the stock of debt typically continued to increase.

20. By the late 1980s, it became clear that this approach to the debt problem was not working for many debtors. Their problem was not one of liquidity (temporary shortage of cash), but one of solvency. It was simply impossible for each of the countries to service all of its debt in full. Consequently, in June 1988, at a summit meeting in Toronto of the seven major industrialized countries, the major Paris Club creditors agreed to reschedule debt servicing of a number of low-income countries on concessional "Toronto terms". These terms entailed a menu of options from which the creditors would choose, aimed at reducing the present value of the rescheduled debt service by up to one third. Twenty countries benefited from Toronto terms, rescheduling almost $6 billion of debt.

21. While a group of lower middle-income countries was accorded easier debt-rescheduling under the Houston terms, the next major improvement in debt relief was offered to Egypt and Poland in the wake of the major political upheavals in Central and Eastern Europe and the Middle East. The difficult economic situation of many low-income debtors continued, however, and subsequently led to the adoption in December 1991 of the London terms by the Paris Club creditors. These terms increased the level of debt relief on eligible debt servicing to 50 per cent.[12] Agreements were signed with 23 countries under these terms, restructuring over $9 billion of debt.[13]

22. The maximum level of concessionality for low-income country debt relief was raised again in December 1994 to two thirds of eligible debt servicing under the new Naples terms. Creditors also agreed to consider a restructuring of the stock of eligible debt for countries that had established a satisfactory track record of macroeconomic policy adjustment and debt service payments for at least three years. Such stock-of-debt operations were intended to allow debtors to exit from the rescheduling process; that is to say, they were to be able to service future debt obligations without additional relief. Moreover, Naples terms allowed for the rescheduling of previously rescheduled debt, in order to "top up" the amount of concessionality provided earlier to the two-thirds level agreed under the Naples terms for the lowest-income countries.[14]

23. These progressively more concessional Paris Club terms, it should be noted, have not applied to all the debt of the debtor country, nor even to all the debt owed to the Paris Club Governments. Neither short-term debt nor debt contracted after each country's "cut-off date" is included in eligible Paris Club debt. The cut-off date is set the first time a debtor comes to the Club for a rescheduling and is usually left unchanged in following reschedulings. For Governments that have to come to the Paris Club for successive restructuring over many years, this can significantly limit the share of outstanding debt that is eligible for treatment. Moreover, concessional debt that originated in official development assistance loans cannot be reduced under the Paris Club, but is instead rescheduled over a long period

(normally 40 years, with 16 years of grace, and interest rates at least as concessional as the original rates). Creditor Governments may, however, choose to write off their outstanding official development assistance debt on a bilateral basis.

Recent agreements

24. Between January 1996 and June 1997, 19 debtor countries signed agreements with the Paris Club.[15] Out of those, 16 countries obtained Naples terms. With the exception of Honduras and Guinea, which obtained a 50 per cent reduction, the other 14 received a two-thirds reduction in debt servicing. Uganda and Bolivia obtained debt stock reductions in 1995, and, in the past 18 months, Mali, Guyana, Burkina Faso and Benin have also obtained such reductions. Since their establishment, Naples terms have been granted to 23 countries in 25 agreements, for total debt restructuring of over $9 billion.

25. The Paris Club has thus increasingly concentrated on the problems of poor countries. Indeed, during the period under review, only a few middle-income countries rescheduled their debt with the Paris Club. Among them were Peru, in July 1996, which rescheduled $6.7 million of debt, and Jordan, in May 1997.

26. The Paris Club mechanism covers the bilateral official debt of most developing countries, but it does not apply to debt owed to non-Club creditors, mainly Arab oil-exporting countries and the Russian Federation (which assumed the claims of the former Soviet Union). Arrears on these credits tended to increase after the Soviet Union collapsed and the financial situation of Arab oil exporters weakened. These creditors have, however, taken several steps to grant relief to their debtors, including reschedulings, debt cancellations and tolerating the accumulation of arrears; but the lack of a formal framework for relief measures has impeded a consistent approach to treating the debt owed to these countries.

27. In this regard, an important step was taken when the Russian Federation reached an agreement with the Paris Club in June 1997 on principles for its accession to the Club as a creditor country. The debt owed to the Russian Federation by several developing countries is estimated to total about $140 billion, applying the exchange rate regime of the former Soviet Union. However, the dollar value of the debt could now be reduced between 30 and 80 per cent for a number of countries, including Angola, Ethiopia, Guinea, the Lao People's Democratic Republic and Mozambique. Meanwhile, the Russian Federation agreed to restructure Angola's $5 billion debt, cancelling $3.5 billion and rescheduling the remaining $1.5 billion with a 10-year grace period.

B. Private creditors

28. With the implementation in 1996 of agreements for Panama and Peru, restructuring $3.9 billion and $8 billion respectively, most middle-income debtors in debt crisis have now taken advantage of the main mechanism for the reduction of their debt to international commercial banks. Since its establishment in March 1989, the "Brady Plan" has been applied to 15 middle-income countries, eliminating 20 per cent of their commercial bank debt, equivalent to over $40 billion.[16] These operations offer creditor banks a menu of options, including the buy-back of outstanding loans at a discount or their conversion into securities involving either a reduction of principal or of debt service. These securities are normally collateralized with United States treasury bonds purchased using reserve funds or the proceeds of loans from the Bretton Woods institutions. One additional agreement was signed in May 1997 by Côte d'Ivoire to restructure $7.2 billion of its commercial bank debt ($2.6 billion in principal and $4.6 billion in past-due interest), which will reduce its total commercial bank debt by nearly 79 per cent in present value terms. Côte d'Ivoire was thus to become the second African country, after Nigeria, to issue "Brady bonds".

29. The Brady Plan was intended to contribute to the improvement of the debtors' creditworthiness, leading to a restoration of their access to private financial markets. Despite the considerable relief embodied in the Plan, the debt-servicing obligations on the remaining debt (now in the form of Brady bonds) were not low cost. Thus, in an important development in 1996, Mexico and the Philippines retired Brady bonds in exchange for uncollaterized long-term bonds that they had become able to issue in the international markets. The advantages of these operations consisted both in the release of the collateral attached to the Brady bonds and better terms on the new bonds. They represent, in essence, a pre-payment of Brady bonds at a discount, funded by new issues. In a similar operation, in June 1997, Brazil converted $2.25 billion of Brady bonds into 30-year global bonds, the largest such offering ever issued by an "emerging-market" country. Other countries, such as Argentina and Venezuela, are reportedly considering similar operations.

30. For the most part, low-income countries have made use of a different programme for restructuring their debt owed to international commercial banks, namely, buy-back operations funded by official creditors and donors, especially the World Bank through its Debt Reduction

Facility.[17] The latter is available only to low-income countries eligible to borrow from the International Development Association (IDA). Since its inception in 1989, 13 low-income countries have taken advantage of this Facility, cancelling $4.3 billion of their commercial bank debt.[16] Between January and December 1996, operations involved Ethiopia, Mauritania and Senegal, which bought back a total $356 million of debt at an average price of 9 cents per dollar.

IV. The Heavily Indebted Poor Countries Debt Initiative[18]

31. In spite of the progress achieved through strengthened economic policies and the above-mentioned debt relief mechanisms, the number of developing countries with an unsustainable debt situation has remained very large, as pointed out earlier. Part of the problem for some countries was that the servicing of multilateral debt could not be formally restructured, owing to the "preferred creditor" status accorded to multilateral institutions.[19] But for a substantial number of countries, servicing of multilateral debt had itself become a difficult burden. Thus, to address the debt problem of low-income countries in a more comprehensive way, the Bank and the Fund proposed at the April 1996 meetings of the Interim Committee and the Development Committee, a framework of action for a new initiative for the heavily indebted poor countries. A new grouping of countries was identified from which countries eligible for the Heavily Indebted Poor Countries Debt Initiative would be selected.[20] A programme of action for implementation of the Initiative was subsequently endorsed by the two Committees at their September 1996 meetings, opening the way for its implementation in 1997.

32. The goal of the Initiative is to help countries to reach a "sustainable" debt-servicing burden.[21] Eligibility is limited to countries that are granted access to the Fund's Enhanced Structural Adjustment Facility (ESAF), and that qualify for borrowing at the World Bank only from IDA. An extended track record of sound policy performance under IMF/World Bank-supported programmes is also required.

33. The programme of action for the implementation of the Initiative has two stages. The first stage is the Naples terms process. It entails a rescheduling of debt-servicing obligations to Paris Club countries (and others) on Naples terms. At the end of that period, the debtor may be accorded a stock-of-debt operation by the Paris Club (that is to say, up to two-thirds reduction of debt). At that point, a decision can be made on whether the second stage is needed. The Boards of IMF and the Bank decide whether Naples stock terms, together with at least comparable relief by other bilateral and commercial creditors, are sufficient to bring the country to a sustainable debt-service position, based on a sustainability analysis agreed with the country's authorities. This is called the decision point.

34. Eligibility criteria for stage two were initially defined as a need for additional relief in order to bring the debt-service-to-exports ratio down to the range of 20 to 25 per cent and the ratio of the present value of debt service to exports to 200 to 250 per cent. In April 1997, the Boards of the Bank and the Fund added new flexibility and endorsed an additional criterion: the ratio of the present value of debt service to fiscal revenue should be no more than 280 percent, provided two other criteria are also met at the decision point, namely, an exports-to-gross domestic product (GDP) ratio of at least 40 per cent and a minimum threshold of fiscal revenue to GDP of 20 per cent. The addition reflects the realization that some economies might be penalized by the exclusive use of the two external-sector benchmarks, without giving due consideration to the fiscal burden of external debt. It also opened eligibility to additional countries. Côte d'Ivoire was expected to be the first country to benefit from the inclusion of the fiscal criterion in the debt sustainability analysis.

35. A further refinement to the calculation of the needed debt reduction was the adoption of three-year averages (rather than one-year results) in the calculation of the export earnings figures. The intent was to obtain a more representative indicator of the country's export experience. Finally, a set of "vulnerability factors", such as the country's reserve position, the concentration and variability of its exports, the resource gap and the burden of private-sector debt, has to be taken into account on a case-by-case basis in determining eligibility for stage two.

36. In the event that stage two is found necessary, the country is asked to establish a second three-year track record under Bank/Fund-supported programmes. During the second stage, Paris Club creditors are to reduce debt-servicing obligations by up to 80 per cent – 13 percentage points beyond that accorded under Naples terms – on a case-by-case basis, subject to a satisfactory implementation of the adjustment programme. In addition, from the beginning of the second stage, donors and multilateral institutions may provide additional assistance in the form of grants or concessional loans which, in some cases, could be used for debt-service payments (in particular, for servicing multilateral debt).[22]

37. At the end of the second three-year period is the "completion point". Provided the country has met certain performance criteria, the stock of Paris Club and comparable debt is reduced by 80 per cent of its original face value. Multilateral institutions are committed to then reduce their claims as necessary so that the total debt falls to a sustainable level. Performance criteria include macroeconomic indicators, progress on key structural reforms and social reforms (for example, improving basic health care and education and reducing poverty).

38. The six-year performance period under the Initiative is to be implemented flexibly on a case-by-case basis, so that countries that have already established track records receive credit for them in the first stage. Countries with an extended record of strong performance are asked to pass through a shortened second stage. Access to the Initiative is to remain available to all potentially eligible countries launching IMF/World Bank-supported programmes before October 1998. A possible extension would then be considered.

39. The total cost of financing the additional debt relief envisaged under the programme of action was estimated by the staff of the Bank and the Fund to be in the range of $5.5 billion to $8.4 billion, although the above-mentioned refinements in the eligibility analysis have already pushed the estimates towards the upper end of the range. The World Bank established the HIPC Trust Fund in November 1996 to fund the reduction in debt and debt servicing of the multilateral development banks. It allocated $500 million from its surplus on non-concessional lending as an initial contribution. A further substantial allocation is expected from the 1997 surplus. However, bilateral contributions to the Trust Fund will be important to fully cover the participation of all multilateral development banks. In a parallel operation, IMF established the ESAF-HIPC Trust to finance special ESAF operations under the Initiative, with an initial transfer of SDR 180 million (about $250 million) from the ESAF Trust Reserve Account and additional transfers to follow. Nevertheless, in no sense are the total funds so far committed sufficient to meet the expected need.

40. In April 1997, Uganda became the first heavily indebted poor country to reach the "decision point". The Executive Boards of the Bank and Fund agreed on a package of debt relief that would reduce the present value of Uganda's debt by $340 million. In view of Uganda's strong track record, the Boards decided to credit Uganda for stage one and shorten the second stage to one year, scheduling the completion point for April 1998. The Bank's contribution, through IDA, amounts to $160 million. IDA agreed to advance $75 million in the form of IDA grants before that date. IMF will provide the equivalent of $70 million in present-value terms. The remaining relief will have to be shared by other multilateral and bilateral creditors.

41. Another half a dozen countries are expected to reach the decision point by the end of 1997, among them Bolivia, Burkina Faso, and Côte d'Ivoire. More will follow in 1998, but it is considered quite possible that only about half dozen countries will have reached the completion point by the end of the decade.

V. International policy conclusions

42. In sum, as measured by the standard debt indicators, the overall debt situation of the developing countries has continued to improve since it was last reviewed by the General Assembly in 1996. However, a very substantial number of developing countries – over 50 by World Bank accounting – remain in difficult debt situations. There is thus a continuing need for international monitoring of the debt crisis and development.

43. Even if many of the severely indebted developing countries are currently meeting their debt-servicing burdens, they are doing so at a high economic cost and with little room left for adjusting to potential adverse economic developments. Other severely indebted countries are simply not meeting all of their debt-servicing obligations and are either building up arrears or are renegotiating their debt-servicing requirements on an ongoing basis. One concern, in particular for low-income countries with very high debt indicators, is that capacity to meet even post-negotiation debt-servicing obligations depends in part on continuing receipt of substantial official development assistance, and such flows must seem less assured today as overall flows of aid are diminishing.[23]

44. The international strategy that has evolved since the 1980s for ameliorating the debt situation has helped many countries return to regular access to external financing, albeit with a significant debt overhang often remaining, leaving them especially vulnerable to changes in market sentiment. The international strategy has been less successful, however, in alleviating the debt situation of the poorest countries despite increasingly concessional treatments. The Heavily Indebted Poor Countries Debt Initiative is thus a most welcome addition to the international debt strategy.

45. The Initiative has nevertheless been received with a measure of scepticism by a number of developing countries. For example, the Conference of African Ministers of Finance at its sixth session, held at Addis Ababa on 2 April 1997, while expressing appreciation to the international

community, *inter alia*, for development of the Initiative, also called for the intensification of efforts to find a durable solution to Africa's debt problems. The Conference urged more flexibility in setting eligibility conditions for reforming African countries that are in the process of reform, sought shortened completion points for countries with strong performance records and appealed to non-Paris Club bilateral creditors to reduce Africa's debt to them, while committing themselves to continued domestic reform.

46. In other words, the Initiative has the most promising potential thus far for reaching a durable solution to the debt problem of the poorest and most heavily indebted developing countries. It would treat their outstanding debt in a comprehensive manner, while supporting their adjustment and reform efforts. Its full implementation could lift the debt burden as an obstacle to economic growth and enable Governments to focus more on long-term policies necessary to accelerate development. All of this, however, depends on how it is implemented.

47. The Initiative is a complex undertaking, requiring unprecedented coordination of a large number of creditors and the settlement of many substantive and technical details. Flexibility and timely action are important determinants of the success of the process. A welcome step in this regard was the quick addition in the spring of 1997 of fiscal indicators to the criteria for evaluating the degree of relief needed to reach debt sustainability and thus access to the process.

48. A willingness to consider further amendments to the conditions for eligibility as well as for actually awarding special assistance is warranted, as experience is gained in the review of country cases. One already contentious issue, in particular, is the length of time needed to demonstrate an appropriate track record of strengthened policy. There is certainly nothing in economic theory or policy practice that makes a six-year period an absolute benchmark for certifying sound policy-making in developed, developing or transition economies. In any case, the countries that are building their track records should not suffer in terms of net external cash flow for the long waiting period before their final stock-of-debt agreement is implemented.

49. It is now of paramount importance that the relatively limited funding thus far committed to the Initiative not become a constraint to its rapid implementation. Bilateral donors might be mobilized as countries reach the decision point on a case-by-case basis, but confidence that the process will result in the required debt relief would be bolstered by the presence of a larger pool of resources in the IMF and World Bank trust funds. In this regard, the proposal to sell some of the Fund's gold holdings and place a portion of the profits in the ESAF-HIPC Trust might now warrant further consideration. Whether through such a mechanism or direct allocations of budgetary expenditures by donors, the funds will need to be in place as increasing numbers of countries pass through the process.

50. Countries that begin the process are being told that at the end of an extended period of difficult adjustment measures they will still be in a parlous situation unless they receive a special degree of debt relief. It is essential that they indeed receive that relief.

51. Finally, beneficiaries of the Initiative and other heavily indebted developing countries will continue to require a supportive international economic environment, including improved conditions of access to markets for their exports, appropriate access to technology and private financing, an international monetary and financial system that is not vulnerable to excessive volatility and adequate official development assistance flows.[24]

Notes

[1] Several of the countries with economies in transition, from central-planning to market-based systems, have also experienced severe debt difficulties, and these have also been a concern of the international community. In recent years, the debt situation of most of these countries has improved markedly. The Russian Federation, in particular, arranged a final settlement of the debt obligations of the former USSR to commercial banks (1995) and to Governments (1996 and 1997). Hungary, which sustained a heavy debt-servicing burden while avoiding debt rescheduling, was able to repay $4 billion in outstanding debt after having had a period of substantial capital inflows (see *World Economic and Social Survey, 1997* (United Nations publication, Sales No. E.97.II.C.1), pp.53-54). Currently, only Bulgaria, among the transition economies, is classified as a heavily indebted country by the World Bank, as per the criteria in the table.

[2] While underlying country data in this report are those of the Bank and the Fund, country groupings shown are those of *World Economic and Social Survey 1997* (see introduction to the statistical annex of the *Survey*).

[3] This may be contrasted with the situation before the major mechanisms of the international debt strategy were put in place. The share of the debt of the countries judged to be severely indebted in 1988 was 57 per cent of the total.

[4] Nevertheless, the two countries with the largest debt are still Latin American (Mexico and Brazil), followed by two Asian countries (China and Indonesia).

[5] For details, see *World Economic and Social Survey, 1997*, table A.37.

[6] The rise in debt-servicing ratios in sub-Saharan Africa and in the least developed countries in 1995 reflected, *inter alia*, repayment of outstanding arrears by certain countries as their debt-restructuring agreements came into effect.

[7] Based on trade forecast in the *World Economic and Social Survey, 1997*, table A.19 (for a comparable forecast, albeit excluding Egypt and the Libyan Arab Jamahiriya from the African grouping, see IMF, *World Economic Outlook* (May 1997), tables A.25 and A.42.

[8] See *World Economic and Social Survey, 1997*, table A.36.

[9] The present value calculation aims to account for the effect of different borrowing terms from each creditor on the debtor's payment obligations over time. It is a meaningful way to compare the actual exposure of each creditor to a given debtor, although it is used in a somewhat different way in the table. The measure is obtained first by discounting the scheduled debt service to be paid to each creditor or multilateral institution at its relevant rate of interest on market-based loans. The present value of the country's total debt is then the sum of the present values of the debt servicing owed to each creditor. The present value of the debt is thus that amount of money which, if set aside today and lent at market terms, would generate a flow of funds over time equivalent to the scheduled debt-servicing flow. A key aspect of the measure is that the more concessional the interest rate on a loan, the smaller the annual interest payments over time and thus the smaller the present value of the loan (the less it is worth to the creditor). A key problem is that market interest rates – and thus the discount rates – change over time and the calculated present value is quite sensitive to changes in the discount rates (see World Bank, *Global Development Finance, 1997*, vol. 1 (Washington D.C., March 1997), p. 49). In other words, debt indicators based on present value measures of debt servicing are only rough guides to the severity of a country's debt situation.

[10] The least developed countries, as such are not usually accorded special treatment in international policy on external debt relief, as they are in the spheres of trade policy or official development assistance. However, 28 of the least developed countries are classified as severely indebted low-income countries (see table) and 29 were included in the initial grouping of potential recipients of treatment as heavily indebted poor countries. For a discussion of debt problems of the least developed countries, see UNCTAD, *The Least Developed Countries, 1997 Report*, forthcoming.

[11] For a summary of the major components of the international debt strategy, see the report of the Secretary-General on the developing country debt situation as of mid-1995 (A/50/379 and Corr.1), table 1.

[12] For more details, see World Bank, *World Debt Tables 1992/93*, vol. 1 (Washington, D.C., December 1992), pp. 75-78.

[13] See World Bank, *World Debt Tables 1991/92*, vol. 1, p. 62, for a summary of Toronto terms agreements; and *World Debt Tables, 1994/95*, vol. 1, p. 64, for a summary of London terms agreements.

[14] Under the Naples terms, countries with per capita incomes of more than $500 and a debt-to-exports ratio of less than 350 per cent, which would not qualify for the two-thirds debt stock reduction, could nevertheless receive a 50 per cent net reduction in the present value of treated debt.

[15] The following 14 countries signed agreements in 1996: Zambia, Honduras, Sierra Leone, Ghana, Mali, Guyana, Burkina Faso, Chad, Congo, Peru, Yemen, Benin, Mozambique and Niger. Five countries reached agreements in the first half of 1997: United Republic of Tanzania, Ethiopia, Guinea, Madagascar and Jordan.

[16] See World Bank, *Global Development Finance, 1997*, vol. 1, p. 79.

[17] The Debt Reduction Facility provides grants for use in buy-backs of commercial bank debt at deep discounts, using contributions from the net income of the Bank and from donors.

[18] This section draws extensively from A. Boote and K. Thugge, "Debt relief for low-income countries and the HIPC initiative", IMF working paper WP/97/24 (Washington, D.C., March 1997), as well as discussions with officials of IMF and the World Bank.

[19] Debtors commit themselves to service debt to these institutions before other obligations.

[20] Preliminary analysis produced an initial list of 41 countries, comprising all of the severely indebted low-income countries listed in the table, except Afghanistan, Cambodia and Malawi, plus Benin, Bolivia (a severely indebted middle-income country), Burkina Faso, Chad, the Lao People's Democratic Republic and Senegal.

[21] Sustainability is defined as the ability "to meet current and future extremal; debt-service obligations in full, without recourse to debt relief, rescheduling of debt or the accumulation of arrears, and without unduly compromising growth" (see Boote and Thugge, op. cit., p. 17).

[22] In borderline cases, the country would receive further flow rescheduling under the Naples terms, with the assurance of additional action at the completion point, if needed.

[23] See the report of the Secretary-General on finance for development, which addresses recent aid trends in more detail (to be issued).

[24] The requirements of an enabling environment for development were spelt out in more detail in the agreed conclusions of the high-level segment of the Economic and Social Council (to be issued in *Official Records of the General Assembly, Fifty-second Session, Supplement No. 3* (A/52/3/Rev.1) adopted at its substantive session of 1997.